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DE RUEHLM #0676/01 1300817
ZNR UUUUU ZZH
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FM AMEMBASSY COLOMBO
TO RUEHC/SECSTATE WASHDC IMMEDIATE 6001
INFO RUEHKA/AMEMBASSY DHAKA PRIORITY 0084
RUEHIL/AMEMBASSY ISLAMABAD PRIORITY 7065
RUEHKT/AMEMBASSY KATHMANDU PRIORITY 5152
RUEHLO/AMEMBASSY LONDON PRIORITY 3726
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 0936
RUEHGO/AMEMBASSY RANGOON PRIORITY 0962
RUCNDT/USMISSION USUN NEW YORK PRIORITY 0575
RUEKJCS/SECDEF WASHDC PRIORITY
RHEFDIA/DIA WASHINGTON DC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

UNCLAS COLOMBO 000676

SIPDIS

SENSITIVE
SIPDIS

STATE FOR SCA/INS, EEB/ESC/TFS, ISN/CPI A RUGGIERO, AND
NEA/IR S MISKO

E.O. 12958: N/A

TAGS: [EFIN](#) [ETRD](#) [KNNP](#) [PARM](#) [IR](#) [CE](#)

SUBJECT: UNSCR 1747: SRI LANKA CITES ASIAN CLEARING UNION
AS BASIS FOR DELAY IN ACTION AGAINST BANK SEPAH LINKS

REF: A. SECSTATE 60238
[1](#)B. COLOMBO 515
[1](#)C. SECSTATE 40440
[1](#)D. COLOMBO 250

[1](#)1. (SBU) Summary: Sri Lanka has not yet taken any action to sever the correspondent bank relationship between the state-owned Bank of Ceylon and Bank Sepah of Iran, as required by UNSCR 1747. Central Bank officials say that Sri Lanka's membership with Iran in the eight-country Asian Clearing Union banking group has prevented Sri Lanka from acting. Sri Lanka will decide how to proceed following the May 15 annual meeting of Asian Clearing Union members in Dhaka. Iran is Sri Lanka's sixth largest trading partner and supplies half of Sri Lanka's crude oil, so Sri Lanka will want to avoid offending Iran if possible. End summary.

EVER HEARD OF THE ASIAN CLEARING UNION?

[1](#)2. (SBU) Sri Lanka Central Bank Deputy Governor Ranee Jayamaha called in Econoff April 30 to follow up on Sri Lanka's response to ref C demarche. Jayamaha, joined by Sri Lanka Financial Intelligence Unit (FIU) director Karunaratne and other Central Bank officials, stated that Sri Lanka's membership in a body called the Asian Clearing Union had prevented the Bank from severing the correspondent relationship between the state-owned Bank of Ceylon and Bank Sepah. Jayamaha explained that the Asian Clearing Union obligated its eight members (Bangladesh, Bhutan, India, Iran, Myanmar, Nepal, Pakistan, and Sri Lanka) to maintain correspondent bank relationships with one another. Jayamaha said that Sri Lanka understood that UNSCR was binding on UN member states, but that Sri Lanka was reluctant to sever the Bank of Ceylon-Bank Sepah relationship without a decision from the Asian Clearing Union on how members should proceed. She noted that the annual meeting of the Asian Clearing Union Board of Directors, composed of the members' central bank governors, would be May 15 in Dhaka and that Sri Lanka Central Bank Governor Nivard Cabraal would attend.

LEGACY OF EXCHANGE CONTROL ERA

13. (SBU) Jayamaha described the Asian Clearing Union, created in 1975 with a secretariat in Tehran, as a legacy of the era when South Asian countries were "pioneers of exchange controls." To control outflows of hard currencies, members prevented their banks from participating in electronic cross border settlement systems. Instead, they used "archaic" foreign exchange transaction settlement procedures that involved the various member banks carrying floats of each other's currencies and manually settling accounts every two months. As a result, she added, severing the correspondent bank relationships would be complicated -- another reason Sri Lanka preferred to defer action on the Bank Sepah connections until it got guidance from the Asian Clearing Union board.

14. (SBU) Econoff reiterated the points from his original demarche (ref B) -- that UNSCR 1747 required Sri Lanka to freeze any accounts related to Bank Sepah and that, for the freeze to have its desired effect, Sri Lanka must act quickly. Jayamaha was unresponsive to Econoff's inquiries about the volume of transactions between the Bank of Ceylon and Bank Sepah or the extent to which Sri Lanka's trade with Iran (mainly sale of tea and purchases of oil) involved transactions through Bank Sepah. Econoff also reminded the Deputy Governor that UNSCR 1747 set a date of May 24 for governments to report to the Sanctions Committee on actions they had taken to comply with the resolution. Jayamaha noted the date and said she would update Econoff on Sri Lanka's plans following the May 15 Asian Clearing Union meeting.

COMMENT: IRAN WIELDS TRADE AND OIL CLOUT

15. (SBU) Iran is Sri Lanka's 6th largest trading partner, with total 2006 exports to Iran worth \$83 million and imports of \$759 million. Sri Lanka in 2006 bought from Iran half of its total two million metric tons of crude oil imports. Iranian officials have visited Sri Lanka recently to promise greater trade, investment, and even development aid (ref D). Sri Lanka will want to avoid souring this relationship if possible, so its application of UNSCR 1747 requirements is likely to be limited and slow. Post would welcome information on how other Asian Clearing Union members are applying UNSCR 1747.

BLAKE